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Simon Young, Solicitor
Head of Legal and Democratic Services



FINANCIAL POLICY PANEL

Thursday 27 October 2016 at 7.30 pm

Committee Room 1 - Epsom Town Hall

The members listed below are summoned to attend the Financial Policy Panel meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Eber Kington (Chairman)
Councillor Richard Baker
Councillor John Beckett
Councillor Graham Dudley

Councillor Omer Kokou-Tchri
Councillor Barry Nash
Councillor Keith Partridge
Councillor Vince Romagnuolo

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Young', written over a faint, larger version of the same signature.

Head of Legal and Democratic Services

For further information, please contact Fiona Cotter, tel: 01372 732124 or fcotter@epsom-ewell.gov.uk

AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting

2. CAPITA ASSET SERVICES

Nazim Miah, Senior Client Consultant, will be in attendance to give a presentation on the implications of local authority borrowing and the general financial climate.

3. TREASURY MANAGEMENT - INTERIM REPORT (Pages 3 - 10)

This report sets out an update on treasury management performance for the first five months of 2016/17.

4. S106 AND CIL UPDATE REPORT (Pages 11 - 20)

This report provides an update on the funds held under Section 106 (S106) planning agreements and CIL (Community Infrastructure Levy).

5. MINUTES (Pages 21 - 24)

The Panel is asked to confirm the Minutes of the Meeting of the Panel held on 13 September 2016 (attached) and to authorise the Chairman to sign them.

TREASURY MANAGEMENT – INTERIM REPORT

<u>Report of the:</u>	Director of Finance & Resources
<u>Contact:</u>	Lee Duffy, Head of Financial Services
<u>Annexes/Appendices (attached):</u>	None
<u>Other available papers (not attached):</u>	Treasury Management Strategy Report 2016/17 Treasury Policy Statement Guidance Notes and Procedures Prudential Code Code of Practice for Treasury Management in Local Authorities (CIPFA) ODPM (CLG) Investment Guidance

REPORT SUMMARY

This report sets out an update on treasury management performance for the first five months of 2016/17.

RECOMMENDATION (S)

That the Panel:

- (1) Agrees for Aberdeen Asset Management plc to continue to manage the Council's external funds;**
- (2) Notes the performance on return of investments for the first six months of 2016/17;**
- (3) Notes the current investment decisions being made within the terms sets out in the Treasury Management Strategy.**

Notes

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 The Council's Treasury Management Strategy supports the achievement of the Council's Medium Term Financial Strategy.
- 1.2 The Treasury Management Strategy for 2016/17 agreed by Strategy & Resources Committee in March aims to ensure maximum return on investments for the Council within reasonable risk constraints.

2 Introduction

- 2.1 The Council's Treasury Management Policy accords with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management in the Public Services.
- 2.2 The current policy requires officers to produce an interim report on investment performance to a meeting of the Financial Policy Panel. This report covers the performance of the treasury management function for the period 1st April 2016 to 30th September 2016.
- 2.3 The Audit Commission report "Risk and Return", prompted by the problems experienced by the Icelandic Banks, identified that regular engagement of elected members in the Treasury Management function is good practice.

3 Overview of Treasury Management

- 3.1 The treasury function deals with the management of cash funds held by the Council. The level of funds held during the year will vary but, on average, amounts to around £30 million.
- 3.2 The aim of treasury management is to ensure that funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means not investing in banks/building societies that are offering high investment returns but are at high risk of defaulting (for example the Icelandic Banks in 2008).
- 3.3 Before an investment decision is made, officers will investigate any proposed counterparty to ensure its financial rating makes it eligible for investment. Even if the institution meets the criteria as set out in the financial strategy, independent advice will be sought from our external financial advisors before the investment is made.

4 Security, Liquidity and Yield

- 4.1 The Council's investment strategy and practice is to put security of investment at a higher priority than rate of return/yield. The day to day practice continues to be reviewed and refined, within the boundaries of the approved policy, in response to challenging market conditions. The cornerstones of current policy/practice are:
 - 4.1.1 to restrict lending to only those institutions which fit the Council's policy in terms of financial standing, credit ratings etc;
 - 4.1.2 generally, to restrict lending to the short-term (typically 3 to 6 months or less) or to cover precept dates for the remainder of the year
 - 4.1.3 to update financial limits to each institution depending the quality of their financial ratings.

5 Current Performance

- 5.1 The average return from investments for 2016/17 was anticipated at 1.25%. This amounted to total budgeted income for the year of £178,000, generated on reserves, working balances and cash flow.
- 5.2 The performance for the first five months of 2016/17 on the Council's investments were as follows:

	Average Investment (Apr-Sept) £'m	Interest Received (Apr-Sept) £'000	Average Rate of Return %
Internally Managed Funds			
Money Market Funds	3.5	6.5	0.38
Fixed Rate Deposits	15.0	79.3	1.06
Interest Bearing Account	0.3	0.3	0.16
Total Internally Managed	18.8	86.1	0.92
Externally Managed Funds			
Aberdeen Asset Management	14.0	92.8	1.32
Grand Total	32.8	178.9	1.09

- 5.3 Returns on investments for the first six months met the profiled budgeted income for the same period, with an average annualised return on investments of 1.09%.
- 5.4 The average return achieved for the first six months of 2016/17 of 1.09% compares favourably with the benchmark seven day London Interbank Bid (LIBID) rate of 0.12%.
- 5.5 The Council has achieved this performance by following the strategy of investing the majority of its long to medium term funds with its external fund manager, Aberdeen Asset Management and investing in a number of one year fixed rate investments with a return of around 1 percent. Short term funds have been invested in money market funds or in an interest bearing instant access account.

6 Internally Managed Funds

Money Market Funds

- 6.1 Money market funds are pooled investments that allow instant access to these monies. The benefit of MMFs is that the risk on the investment is very low as the money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum being invested with a defaulting counterparty.
- 6.2 The return made on money market funds of 0.38% is higher than the benchmark of 0.12%. Investment in money market funds has been limited to short term investments from surplus funds which will need to be called back with no notice required.

Fixed Rate Term Deposits

- 6.3 As at the end of September the Council currently had six fixed term deposits of £2,500,000, these investments are 1 year fixed rate deposits, invested at rates of 1.10% and 0.80% with maturity dates between October 2016 and August 2017.
- 6.4 The current strategy and recent guidance obtained from our independent financial advisors is to limit fixed term investments to a period of one year until there is improved stability within the financial markets.

Interest Bearing Accounts

- 6.5 Interest bearing accounts offer the same instant access as the money market funds and deliver a rate of return linked to base rate set by the Bank of England.
- 6.6 The risk on these investments is higher than the money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.
- 6.7 The return made on interest bearing accounts of 0.16% compared to the benchmark of 0.12%.

7 Externally Managed Funds

- 7.1 Aberdeen Asset Management plc, previously Scottish Widows, has been the Council's external fund manager since 31st October 2007. During this period they have consistently performed above the benchmark.

	Aberdeen Asset Management Actual Return - EEBC	LIBID 7 Day Rate
2008/09	5.60%	3.68%
2009/10	3.62%	0.42%
2010/11	1.23%	0.43%

	Aberdeen Asset Management Actual Return - EEBC	LIBID 7 Day Rate
2011/12	1.49%	0.48%
2012/13	1.38%	0.39%
2013/14	0.83%	0.35%
2014/15	0.88%	0.36%
2015/16	0.76%	0.36%

- 7.2 Initially the external fund manager produced some exceptional returns for the Council. Since October 2009 returns have dropped of significantly as opportunities to deliver significant returns have become very limited due to difficult market conditions. However the fund manager has still consistently produced returns above the benchmark.
- 7.3 The fund manager has advised of an anticipated overall return on the fund of around 0.8% by the end of the year.
- 7.4 The Council has adopted a policy of investing the majority of our medium to long term funds with this fund manager. This has two benefits to the Council: the first is it minimises the Council's risk, as the funds invested with Aberdeen Asset Management plc are spread across a wide portfolio of financial institutions. This results in the overall exposure to a potential defaulting bank being limited to a small percentage of the overall holding; the second benefit is that Aberdeen Asset Management plc are able to attract more favourable rates due to the size of the fund and having access to detailed information regarding the various institutions.
- 7.5 Due to the performance of Aberdeen Asset Management plc over the past eight years it is proposed that the Council continues to use Aberdeen Asset Management plc as its external fund manager and review the position again in 12 months.

8 Treasury Management Policy

- 8.1 In previous years the Council has recognised the increased levels of risk due to the uncertainty in the financial markets and consequently restricted the number of investments held over a fixed term. It still remains unlikely that there will be an increase in interest rates in the near future, so at present the majority of the funds are currently being maintained over the short term.
- 8.2 Officers have entered into a number of fixed rate 1 year investments and are in the process of exploring other types of investments that potentially can increase yields without significantly increasing the risk to the capital invested.

- 8.3 The Council continues to use Money Market Funds for internal investments as they minimise exposure to counterparty risk. Current returns on these funds are slightly lower than that being offered from interest bearing accounts, but these funds also allow for maximising investment of short term cash surpluses during the year and also improve the efficiency of cash flow management.
- 8.4 Aberdeen Asset Management plc commented the following;
- 8.5 That after Brexit, markets immediately reacted adversely with risky asset prices and yields on gilts falling aggressively. Following a brief leadership campaign Theresa May was installed as leader of the Conservative party and Prime Minister.
- 8.6 Sterling also declined precipitously as markets fretted about the UKs future trading relationships and ability to fund its large current account deficit
- 8.7 The FTSE 100 quickly reversed course as soothing words and a strong hint at policy actions to come calmed market fear
- 8.8 Then at the MPC's August meeting those hints became actions as the MPC voted to cut interest rates to 0.25%, re-start the QE programme (GBP 60bn) and engage in a programme of corporate bond buying (GBP 10bn)
- 8.9 Initial survey data weakness indicated a hit to UK economic confidence. However, this recovered sharply and data released subsequently shows that as yet there does not appear to have been a major shock to the economy.
- 8.10 A further interest rate cut is anticipated, however the timing is very subjective. We believe this is very much data dependent, earliest market opinion appears to be November, Aberdeen believe Q2, erring on a possible cut in late Q1.

9 Financial and Staffing Implications

- 9.1 The Council's budget anticipates the equivalent of £178,000 of interest to help fund services in 2016/17 calculated as follows:

	Budgeted £	Forecast £
Interest earned in year	178,000	295,000
Contribution from Interest Equalisation Reserve	42,000	0
Total Interest Available	220,000	295,000
Less Interest credited to specific provisions	73,000	73,000
Interest used to fund General Fund services	147,000	222,000

- 9.2 The forecast interest at the end of 2016/17 is anticipated to be at £295,000 compared to £178,000 assumed within the budget. Interest credited to specific provisions will remain close to budget at £73,000. It is therefore anticipated that no contribution will be required from the interest equalisation reserve to fund services.

10 Interest Equalisation Reserve

- 10.1 The interest equalisation reserve was set up several years ago to enable variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year.
- 10.2 With base rates and investment returns at historically low levels and with no immediate sign of these increasing, the funds in this reserve are needed more than ever.
- 10.3 The balance on this reserve is currently at the start of 2016/17 was £630,000, however, £70,000 of this balance has been earmarked to be transferred to the Property Maintenance Reserve. The budgeted position shows that the balance will reduce to £518,000 at the end of this financial year. The forecast position means that the year-end balance on this reserve will be around £560,000.
- 10.4 The level of this reserve will be re-assessed in the 2017/18 budget report in February 2017.

11 Equalities and Other Legal Implications

- 11.1 There are no particular equalities or other legal implications for the purpose of this report.

12 Partnerships

- 12.1 There is partnership working with the fund manager and the treasury consultants.
- 12.2 The report seeks approval to continue with the use of Aberdeen Asset Management plc as the Council's fund manager with a further revision in 12 months.

13 Risk Assessment and Conclusions

- 13.1 Investments with our external fund manager are considered low risk as the money invested in the fund is spread across a range of counterparties, this limits the exposure of a significant sum being invested with a defaulting counterparty.
- 13.2 The Financial Strategy for Treasury Management, sets out that investment decisions must be based first and foremost on security, then liquidity and finally yield.

- 13.3 Both internal and external investments for the first 6 months of 2016/17 have exceeded the benchmark of 7 day LIBID rate.
- 13.4 Returns and interest rates are expected to stay at a low level both for this year and next year.

WARD(S) AFFECTED: All

S106 AND CIL UPDATE REPORT

Report of the: Director of Finance & Resources
Contact: Lesley Shields
Urgent Decision?(yes/no) No
If yes, reason urgent decision required: N/A
Annexes/Appendices (attached): None
Other available papers (not attached): None

REPORT SUMMARY

This report provides an update on the funds held under Section 106 (S106) planning agreements and CIL (Community Infrastructure Levy).

<u>RECOMMENDATION (S)</u>	<i>Notes</i>
<p>That the Panel</p> <p>(1) Notes the current position on S106 funds held by the authority</p> <p>(2) Notes the current position on CIL funds held by the authority</p> <p>(3) Supports the use of S106 funds for the increase in the Poole Road Recreation Ground Play Equipment scheme (£8,500).</p>	

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

1.1 The Capital Strategy Statement was approved by the Council on 11 February 2016 as Appendix 10 to the Budget Report. Section 106 and CIL funding supports the achievement of Key Priorities in the Corporate Plan where investment can be funded from developer contributions and CIL receipts.

2 Current Position

S106

2.1 The Council currently holds funds from S106 agreements totalling approximately £3.8 million. From this balance £2 million is committed within the capital programme for such items as affordable housing or

earmarked for schemes awaiting further approval. Included within this balance is £236,000 that needs to be transferred to Surrey County Council and other organisations as they are responsible for utilising these funds.

- 2.2 Of the £1.6 million uncommitted £690,000 is being held for West Park community facilities.
- 2.3 The current position of Section 106 funds held as at the end of September 2016 is summarised below:-

	£'000	£'000
Section 106 funds held as at 1 April 2016		3,360
Section 106 Receipts received in 2016/17		460
Section 106 Payments Made in 2016/17		(10)
Balance of S106 Funds held as 31 September 2016		3,810
Less:		
Funds held due to SCC and other organisations	(236)	
Funds committed and approved for specific schemes in or before 2016/17	(2,018)	
		(2,254)
Unallocated S106 funds as at 30 September 2016		1,556

- 2.4 The unallocated funds can be broken down further with £859,000 earmarked against future expenditure awaiting further approval or requiring further negotiation with developer to amend terms of agreement.

	£'000	£'000
Unallocated S106 funds as at 30 September 2016		1,556
Funds awaiting further approval		0
Available Uncommitted S106 Funds		1,556
Horton Chapel-West Park and Hospital Cluster Site Contributions	(774)	
Affordable Housing	(145)	
68-72 Salisbury Road, Bellway Homes – for use on planting at front of the development	(1)	
TS Foxhounds – Use for footpaths on Longmead Estate (needs further approval)	(20)	
Monitoring Fee	(103)	
Earmarked Funds		(1,043)
Available S106 Funds		513

CIL

- 2.5 The Council introduced CIL on 1 July 2014. CIL is the main way in which the Council now collects contributions from developers for infrastructure provision to support new development in the Borough.
- 2.6 The Council currently holds funds from CIL totalling approximately £2.8 million. From this balance £806,000 is committed within the capital programme for such items as PlanE and revenue to fund delivery of the Local Plan in 2016/17 and 2017/18.
- 2.7 CIL is broken down into three pots.
- 5% is held as a monitoring fee. This can be used to finance monitoring of the CIL scheme – Currently £62,246 held as uncommitted.
 - 15% of the remaining 95% is held to be spent on priorities agreed with the local community in areas where the development has taken place – Currently £405,401 held as uncommitted.
 - The remaining balance is held for infrastructure provision to support new development in the Borough. This can be accessed by both the County Council and the Borough Council – Currently £1,571,263 held as uncommitted.

3 S106 Agreements with Expiry Dates

- 3.1 Some developers' contributions are time limited. Under the terms of the S106 agreement, if the contribution has not been spent in line with the conditions applied in the agreement, the Council is liable to return the contribution to the developer. The Council currently holds no S106 agreements that have reached their expiry dates.
- 3.2 The agreements written under the Developer Contribution Supplementary Planning Document (SPD) tend not to have time limits outlined within the legal agreements. This leaves a handful of contributions that have expiry dates. The table below shows the agreements that are within expiry dates and whether they have been earmarked for a specific project.

S106 Ref	S106 Agreement	Restrictions	Cost £	Use	Deadline for Contribution
45	Epsom Station	Monitoring Fee	4,097	Unallocated	17/07/2018
52	72-74 Temple Road	Open Space facilities in the vicinity of the development	6,396	Unallocated	20/03/2017

S106 Ref	S106 Agreement	Restrictions	Cost £	Use	Deadline for Contribution
65	137 & 139 Chessington Road, Ewell	Provision and/or improvement of public open space in Epsom & Ewell	3,299	Unallocated	14/04/2018
Total			13,793		

4 Current Uncommitted S106 Contributions Held over £10,000

4.1 Of the £1,556,000 of uncommitted s106 funds, the majority, £1,381,000, is from large contributions (in excess of £10,000). The following significant contributions remain uncommitted against schemes. However, some funds have schemes earmarked against them but have yet to be formally approved.

S106 Ref	S106 Agreement	Restrictions	Contribution £	Current Status
3	TS Foxhound, 1a Blenheim Road, Epsom	Improvements to the open space which adjoins the site and lies between Blenheim Road, Longmead Road and Hook Road	20,000	Officers are negotiating with the developer to agree the use of the contribution to renew paths on the Longmead Estate
32	Wilberforce Court, Heathcote Rd, Epsom	Various under SPD	37,781	No use currently identified
62	West Park	Community facilities, monitoring and environmental improvements	781,714	£693,639 Earmarked for Horton Chapel
63	Magistrates & County Court Site, The Parade	Green infrastructure within the borough	22,765	No use currently identified
88	468 Chessington Road	Various under SPD	14,638	No use currently identified
100	2C Danetree Road West Ewell	Various under SPD	10,443	No use currently identified

S106 Ref	S106 Agreement	Restrictions	Contribution £	Current Status
105	379 - 393 Kingston Road, Ewell	Various under SPD	31,979	No use currently identified
110	Land rear of 23 Stoneleigh Broadway	Various under SPD	13,704	No use currently identified
122	The Lintons Centre, Lintons Lane	Various under SPD	184,090	No use currently identified
128	Pine Lodge, Horton Lane	Various under SPD	34,176	No use currently identified
136	Heron Court, Alexandra Road, Epsom	Various under SPD	145,470	Earmarked for affordable housing
	Hospital Cluster	Works to the Hospital Cluster site	83,983	Earmarked for Horton Chapel
Total			1,380,810	

5 Poole Road Recreation Ground Play Equipment

5.1 At the meeting on 17 March 2015, former Leisure Committee approved in principle to support a project to replace the multi-play equipment at Poole Road Recreation Ground. The funding for this project from S106 contributions (in the sum of £18,000) was supported by the Panel (ref: meeting on 1 December 2015). Subsequently, having consulted with residents, officers would like to revise the scheme to incorporate a slide. This increases the cost of the project by £8,500.

5.2 This report seeks approval to fund this increased project cost from the following S106 funds.

Received	Address	Conditions	£	Previous use of s106
01/11/2013	429 Kingston Road	Provision of open space facilities within the Borough	2,041.02	Park information boards

Received	Address	Conditions	£	Previous use of s106
14/09/2010	87-87 Amis Avenue	Provision of open space facilities within the Borough	1,036.70	Flood works at Clarendon Park
31/10/2013	137-139 Chessington Road Ewell	Provision or improvement of public open space within the Borough	3,299.99	Playground equipment at Pemberley Chase. Poole Road Playground
16/04/2012	7 High Street Ewell	Provision of open space facilities within the Borough	1361.57	Park information boards
15/03/2010	25 High Street Epsom	Provision of open space facilities within the Borough	760.72	Parks Bench Replacement
			8,500.00	

6 Banstead Sustainable Transport Package

- 6.1 This is a package of transport improvements being promoted by Surrey County Council – focussing upon bus, cycling and pedestrian links between the two settlements. These improvements are the subject of a current funding bid to the Local Enterprise Partnership. The Borough Council was originally an active partner in the bid and had initially agreed to make a contribution towards the delivery of the scheme. To this end, the Borough Council's Strategy & Resources Committee had notionally agreed to make a contribution of £250,000 towards the cost of the scheme.
- 6.2 The contribution would have been drawn from the Community Infrastructure Levy and is included as part of the committed CIL total in paragraph 2.6. above.
- 6.3 The release of the contribution was subject to it being demonstrated that the scheme would help to deliver new development in the Borough; specifically within Epsom Town Centre. This has not happened and the Borough has consequently withdrawn its contribution to the scheme. On that basis, the £250,000 notionally committed to this scheme is now returned to the wider CIL fund and is available as a contribution towards other suitable infrastructure projects, bringing the committed CIL total down from £806,000 to £556,000.

7 Financial and Manpower Implications

- 7.1 Section 106 and CIL receipts provide an opportunity for additional investment. There may be no budget impact on new schemes so long as schemes funded do not result in additional on-going running costs. Some may even reduce future maintenance liabilities.
- 7.2 The relevant policy committee will need to ensure that there are no additional resource implications for new schemes that would have an adverse impact on budgets for other services.
- 7.3 **Chief Finance Officer's comments:** *All financial implications are reflected in the body of this report.*

8 Legal Implications (including implications for matters relating to equality)

S106

- 8.1 Agreement under Section 106 of the Town and Country Planning Act 1990 comprises an agreement often associated with the grant of planning permission which confers a benefit to the community, e.g. where a housing development is to be permitted, the applicant or developer agrees to build or pay for a new school or additional leisure facilities for the community.
- 8.2 Section 106 states:
- (1) *A local planning authority may enter into an agreement with any person interested in land in their area for the purpose of restricting or regulating the development or use of the land, either permanently or during such period as may be prescribed by the agreement.*
 - (2) *Any such agreement may contain such incidental and consequential provisions (including financial ones) as appear to the local planning authority to be necessary or expedient for the purposes of the agreement.*
 - (3) *An agreement made under this section with any person interested in land may be enforced by the local planning authority against persons deriving title under that person in respect of that land as if the local planning authority were possessed of adjacent land and as if the agreement had been expressed to be made for the benefit of such land.*
 - (4) *Nothing in this section or in any agreement made under it shall be construed (a) as restricting the exercise, in relation to land which is the subject of any such agreement, of any powers exercisable by any Minister or authority under this Act so long as those powers are exercised in accordance with the provisions of the development plan, or in accordance with any directions*

which may have been given by the Secretary of State as to the provisions to be included in such a plan; or (b) as requiring the exercise of any such powers otherwise than as mentioned in paragraph (a)

CIL

- 8.3 CIL is a local tax on new development that local authorities can choose to introduce to help fund infrastructure in their area. CIL provides a relatively straightforward mechanism for collecting contributions from new developments. This is guided by the Community Infrastructure Levy Regulations 2010 and subsequent Amending Regulations.
- 8.4 The Council maintains an Infrastructure Delivery Plan (IDP) and a draft Regulation 123 list, the latter identifying the types of community infrastructure that the Council envisages using CIL funding for. The IDP identifies the infrastructure improvements required to support growth and demonstrates that there is a sufficient 'infrastructure funding gap' to justify the need to collect CIL.
- 8.5 The establishment of CIL requires partnership working with infrastructure providers and partnership working is fundamental to the success and delivery of the objectives of the Borough.
- 8.6 Section 106 agreements will continue to be used where on-site community infrastructure is required. They will also continue to be used to secure affordable housing.
- 8.7 **Monitoring Officer's comments:** *No additional comments for the purposes of this report*

9 Risk Assessment

- 9.1 This report forms part of on-going work on s106 planning agreements and CIL receipts that will lead to better management of expenditure funded from these monies.
- 9.2 The main risks at present are that investment funded from agreements is not properly prioritised, that investment is not made in a timely manner or that receipts are not claimed against agreements.

10 Conclusion and Recommendations

- 10.1 The report gives details of the current position of S106 funding.
- 10.2 The report gives details of the current position of CIL receipts.
- 10.3 This report seeks approval for S106 funding to be applied to the:

- Additional project for works to Poole Road recreation Ground play equipment.
- 10.4 This report gives details of the de-commitment of CIL receipts for the Banstead Sustainable Transport Package.
- 10.5 Officers will continue to prioritise the investigation of opportunities to apply time-barred funds within the deadline and conditions of the agreement as appropriate.

WARD(S) AFFECTED: All

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**Minutes of the Meeting of the FINANCIAL POLICY PANEL
held on 13 September 2016**

PRESENT -

Councillor Eber Kington (Chairman); Councillors Richard Baker, John Beckett, Omer Kokou-Tchri, Barry Nash and Vince Romagnuolo

Absent: Councillor Graham Dudley and Councillor Keith Partridge

Officers present: Frances Rutter (Chief Executive), Michael Smith (Chief Accountant), Brian Thompson (Interim Head of Financial Services) and Fiona Cotter (Democratic Services Manager)

5 MINUTES

The Minutes of the Meetings of the Financial Policy Panel held on 1 December 2015, 2 February 2016 and 24 May 2016 were agreed as a true record and signed by the Chairman

6 DECLARATIONS OF INTEREST

No declarations of interest were made by Councillors regarding the item of business on the Agenda.

7 BUDGET TARGETS 2017/18

The Panel received a report which updated the financial forecast, recommended financial targets for the preparation of the draft budget for 2017/18 and financial planning for 2018/19 and 2019/20.

The Panel discussed the issues in the context of a financial landscape which had changed significantly following the previous financial settlement in early 2016.

A widely expected phased cut of Revenue Support Grant (RSG) funding was not now proposed by the Government which left the Council with no Revenue Support Grant from 2017/18 onwards and an overall 66% reduction in funding between 2015/16 and 2019/20, posing an even greater challenge to the Council in delivering year-on-year savings to achieve a balanced budget.

The Government had made an offer of a fixed, four year settlement covering the years 2016/17 – 2019/20 early in 2016. A local authority was not obliged to accept the offer. However, the report highlighted that that the risk in not accepting the offer was that any subsequent year's annual settlement might be

less favourable than that outlined in the fixed offer – a risk which applied equally to authorities in receipt of Revenue Support Grant and those like Epsom and Ewell which were not scheduled to receive RSG in future years.

The report also highlighted that an advantage of accepting the four year settlement would be the removal of uncertainty in levels of funding from central Government. This had traditionally placed a strain on resources in this authority around December and January to make revisions to the budget in time for the January committee cycle. The certainty in funding would allow for a more predictable budget setting and the ability to get known positions earlier in the process.

To accept the settlement local authorities had to produce an Efficiency Plan to demonstrate a four year budget with transparency on the benefits for the Council and the community. Significant work had gone into the recent Medium Term Financial Strategy (MTFS) and it was proposed that, should the Panel recommend acceptance of the four year settlement, the current cost reduction plan would be renamed the Efficiency Plan and that the MTFS should be renamed the MTFS and Efficiency Plan. The report highlighted that this plan would need regular review in light of changes over the next four years.

The forecast budget shortfall for 2017/18 was £220K and over the next four financial years the total deficit was £1.282m. The latest four year revenue budget forecast was appended as Annexe 2 to the report and included additional efficiency savings of £119K identified by Officers over and above the “Star Chamber” exercise in 2016/17. It was noted that Officers had taken a prudent approach in profiling the identified savings in relation to the reduction in homelessness costs through new properties. There were a number of projects coming on-line but it was not known when the savings would come through (although it was confirmed that some were starting to do so) and so were not forecast to come through until 2019/20. In fact, it was anticipated that savings realised by the Bytes and Blenheim projects would come through in 2017/18 and the four plan would be amended accordingly should this occur.

The Panel wished to record its thanks to Officers for undertaking a tough but excellent job in identifying efficiency savings which had not resulted in the decimation of services. Officers acknowledged that it was becoming increasingly challenging to find in-year savings but were confident that these could be found over the four-year period. It was anticipated that further savings ought to be achievable to address the funding gap through service reviews, efficiency savings and income generation. For example, an element of the venues review would be looking at income generation; procurement changes and changes to the way in which the Council engaged agency staff ought to realise efficiencies through economies of scale and the Council was considering investment in property.

One of the assumptions made in forecasting the budget shortfall was that £500k of New Homes Bonus Grant would be used to fund services in 2017/18, 2018/19 and 2019/20. The 2016/17 budget had an increased use of £634K due to the late changes in the government settlement (assuming the potential £119K

savings did not come through). Whilst assurances had been received that this grant would continue for the next four years, it was widely anticipated that this source of funding would be reduced and it was important that the Council continued to reduce its reliance on this source of funding. It was anticipated that the Council would receive £2.117m in New Homes Bonus Grant in 2017/18. The forecast figure for 2018/19 was a prudent one.

Another assumption was that, in line with the recent government announcement on public sector pay, the provision for pay award would be set at 1% for 2017/18 to 2019/20. It was acknowledged that there were currently some gaps in the establishment but it was not accepted that this was necessarily as a result of salary levels. A review of pay scales was currently underway and consideration was also being given to ways in which other sources of funding to could be used on related posts (Community Infrastructure Levy, for example).

Having considered the issues raised by the report, the Panel recommended to the Strategy and Resources Committee that:

- (1) The Council should accept the Four Year Settlement from Central Government with the following actions:
 - a) That the approved cost reduction plan be renamed the Efficiency Plan and the MTFs is retitled the MTFs and Efficiency Plan;
 - b) That the Chief Executive in consultation with the Chairman and Vice Chairman of Strategy and Resources be authorised to make such further changes as she considers appropriate to the MTFs and Efficiency Plan, for example, to enable the Council to respond to any emerging guidance or good practice and meet the 14 October deadline;
 - c) That Members and Leadership Team develop the Efficiency Plan during October to January as part of the 2017/18 budget setting process.
- (2) The following overall revenue budget target for 2017/18:
 - a) Estimates prepared including options to reduce organisational costs by £556,000 to minimise the use of working balances and maintain a working balance of £2.5m in accordance with the Medium Term Financial Strategy;
 - b) That at least £200,000 additional revenue be generated from an increase in discretionary fees and charges, based on minimum overall increase in yield of 3% in 2017/18;
 - c) That a provision for 2017/18 pay award is made of £180,000 which represents 1% pay increase and 0.6% for progression.
- (3) That further efficiencies be identified to address the budget shortfalls of £220,000 in 2017/18, £374,000 in 2018/19 and £688,000 in 2019/20;

- (4) That the Capital Member Group seek to limit schemes included within the capital expenditure programme that enable the retention of the agreed minimum level of reserves.

In so doing, the Panel further recommended that, should the Four Year Settlement be accepted, the Council should still make strong representation to appropriate individuals and bodies regarding the funding cuts.

The meeting began at 7.32 pm and ended at 8.26 pm

COUNCILLOR EBER KINGTON (CHAIRMAN)